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Gov. Rosselló Warns Fiscal Challenges Will Make Some Municipalities Inoperable Within 5 Years Absent Structural Reform, Acknowledges Opposition to County Plan

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After a Wednesday meeting with a group of mayors, Gov. Ricardo Rosselló said that action needs to be taken to shore up the financial situation with island municipalities or else many will cease to be operational within five years.

The governor said that he favors a local government reform establishing a county government system that would take on several services currently being offered by the municipal and central governments, arguing that this would both cut costs and improve services delivered to the public. However, Rosselló acknowledged that there is opposition to his plan by mayors and other political leaders and said he is open to their suggestions.

"I have spoken to the mayors about starting this dialogue. They don't have to accept my proposal. We can discuss it and develop a proposal together, but we have to do something," the governor said. "The fiscal reality is if the numbers continue as they are, the municipalities will be inoperable within five years."

The governor's comments also follow a commonwealth comptroller's [report](#) on the municipal government of Ponce published this week that illustrated the financial difficulties of island municipalities. The report found that the town had built up a debt of \$32.6 million in outstanding obligations to the Employee Retirement System, the Puerto Rico Aqueduct and Sewer Authority, the Puerto Rico Electric Power Authority and the U.S. Internal Revenue Service.

During his remarks, the governor lauded county systems, saying they exist throughout U.S. jurisdictions and would not eliminate the existence of municipalities but would take on many of the services provided at the town level. He said his administration is also committing to spinning off central government services to the new county structure.

"I know there are people who are in favor of and against this, but as a people, we have to start having a serious conversation about having an instrument to present to the people of Puerto Rico, an actionable, legislative measure, and develop it in the style of a local government reform," the governor said.

The governor also said that mayors have brought proposed solutions and a series of alternatives to address the fiscal problems of island municipalities. He said both the Puerto Rico Fiscal Agency and Financial Advisory Authority and the Office of the CFO are analyzing the proposals for their financial viability and working to ensure that municipalities have sufficient financing to continue functioning.

Rosselló called municipalities "valuable instruments" but added that a "robust" regional government structure could deliver services better and more efficiently and generate "substantial savings."

"This is not a caprice of public policy. It's a fiscal reality directed by the numbers. There is a structural reform that can be undertaken. I'm not saying the solution I propose is the only one, but I am saying we have to talk seriously about a reform of the local government," Rosselló said, referring to Puerto Rico's 78 municipalities.

Puerto Rico Senate President Thomas Rivera Schatz reiterated today his opposition to the consolidation or elimination of any of the island's 78 municipalities but said he would evaluate any potential legislation on that front which may be submitted by the Rossello administration.

"I bet that municipalities aren't going to disappear. I bet that if we give them the resources, prerogatives and space, they are going to help us lift up Puerto Rico in socioeconomic terms as they did during Hurricane Maria," Rivera Schatz said during a press conference at the Capitol, where he was flanked by a bipartisan group of mayors. "I believe in, trust and support municipal governments."

Rivera Schatz said he welcomed the formation of additional municipal consortia or collaboration agreements between city halls. "That's one thing, and eliminating municipalities is another," he said. "I don't believe in eliminating municipalities."

The heads of the New Progressive Party Mayors Federation and Popular Democratic Party Mayors Association also rejected any move to consolidate municipalities. "We do not agree with eliminating municipalities," Mayors Federation President Carlos Molina, the mayor of Arecibo, said. "We don't favor counties, but we do need to seek alternatives on how we can be more efficient, control costs and continue providing services to the people."

Rivera Schatz reiterated his intention to amend the administration's opportunity zones bill to give mayors a "seat at the negotiating table" with the central government and investors. As filed by the administration, the bill tasks the commonwealth's Department of Economic Development and Commerce with such negotiations, he said. The measure, [Senate Bill 1147](#), remains in a conference committee after different versions were passed in the upper chamber and House of Representatives in November and will undergo further amendments.

Rivera Schatz said that language would be drafted to harmonize the interest of the central government in having an alternative "that is attractive enough for investors to look to Puerto Rico without this representing a loss of revenue collections for municipal governments."

The Senate president signaled that the language would preserve the power of municipal governments to levy municipal business taxes but would "let investors know how far mayors are willing to go in terms of minimum and maximum collections."

"What we don't want is that tax decrees are granted and mayors are the last to know," Molina said.

The government's latest commonwealth fiscal plan draft, [submitted](#) to the PROMESA oversight board last Friday, states that municipalities receive \$176 million in annual appropriations from the commonwealth but that many still operate with "significant deficits." The March 10 draft of the fiscal plan calls for completely eliminating the subsidy to municipalities by fiscal year 2024.

"Municipalities must undergo substantial operating model changes, or else risk increasing their annual operating deficits. In addition to reducing the appropriations to municipalities to drive fiscal discipline, the commonwealth can support consolidation of municipal services to encourage efficiencies, such as through service provision collectives or streamlining the legal framework to remove barriers to collaboration," the draft commonwealth fiscal plan states.

The PROMESA oversight board [eliminated](#) a Rosselló administration proposal from a previous version of the fiscal plan that called for the establishment of a regionalization and county model that contained a \$100 million county support fund. The board had [raised questions](#) about the proposed "county" structure to consolidate services between municipalities to cut costs, saying it needs more detail on actions that would drive operating efficiencies and cost reduction and improve local administration.

In an August 2018 [interview](#), Puerto Rico Fiscal Agency and Financial Advisory Authority Executive Director Christian Sobrino acknowledged concerns regarding municipal finances which he said were outlined in [solicitation documents](#) for the Government Development Bank bond exchange. He cited municipal obligations to the pay-go retirement system as one of the towns' big fiscal challenges. The AAFAF chief said the administration was at work on a "comprehensive program" that takes into account municipalities' fiscal health and debt service, as well as their responsibilities under the law and citizen expectations. He indicated at that time that the administration wanted to get input from mayors before embarking on a county government system. Sobrino said he does not see municipal

governments being designated as covered entities under PROMESA “right now,” but said if it were to occur, it would likely be on a municipality-by-municipality basis. Prior to Sobrino’s appointment as executive director, in January 2018, AAFAF expanded the scope of consultant V2A’s engagement to include work related to regional and county government structure alternatives for Puerto Rico.

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